Response to Questions on the FY 2007 Advertised Budget Plan

Request By: Supervisor Gross

Question: Provide summary and historical information pertaining to the Real Estate Tax deferral program for seniors.

Response:

A local real estate tax deferral program for the elderly and disabled is authorized by Section 58.1-3211(4), of the Virginia Code. The County used to offer this program but it was discontinued by the Board in 1990 due to low participation. The highest participation was in 1986 with 38 participants. The disincentive appeared to be that citizens did not want to leave accumulated debt with their estate.

The Board of Supervisors could reinstitute this program simply by adopting a local ordinance amendment. A tax deferral program for seniors is tied to the same income and asset restrictions governing the tax relief program. Currently, the income and asset limitations are at the maximum allowed by the state, at $72,000 and $340,000, respectively.

Consistent with the number of persons eligible for tax relief, it is estimated that roughly 8,900 elderly and disabled homeowners could participate in a tax deferral program if they chose to do so. However, the majority of tax relief applicants are already at 100 percent relief, so that tax deferral would only benefit those at the 25 and 50 percent relief levels.

Given historical experience however, it is more likely that a much lower number of people would actually participate due to the accrued liability on their estate. It is estimated that participation would in all likelihood be less than 300 applicants. Based on this and the proposed Real Estate Tax rate of $0.93 per $100 of assessed value, staff estimates the actual amount of deferred real estate tax revenue would probably be about $0.5 million, or less. Any deferred taxes would of course eventually be paid to the County upon the sale of the home or the death of the owner. State law allows interest to be charged on the deferred taxes not to exceed 8.0 percent per year. A lower interest rate could be charged.

Staff notes that the 2006 Virginia General Assembly adopted legislation that would raise the allowable asset limits for tax relief or tax deferral to $540,000 (HB 121). If this legislation is approved by the Governor, this would significantly expand the number of citizens that might be able to benefit from a tax deferral program. For example, the Board of Supervisors could keep the Tax Relief program at its current asset levels but allow tax deferral for applicants with assets between $340,000 and $540,000. Though the available data is “soft”; staff estimates that the new legislation could make another 3,568 applicants eligible for such a program. Again, not all eligible for the program would be expected to participate in such a program. At a 10 percent participation level, this scenario could result in about 260 additional applicants at a possible deferral of roughly $1.0 million. This could provide a safety net in cases where homeowners on a fixed-income faced a cash flow problem of rising taxes associated with higher property values.

The Department of Tax Administration would be able to absorb any administrative costs associated with this program.